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A Second Brief to
THE ONTARIO SELECT COMMITTEE
ON THE STATUS OF PENSIONS



A participant in
the United Way



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Social Planning Council
of Metropolitan Toronto
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A Participant in the United Way

As an organization which has long had a deep interest in the well-being of Ontario's elderly, the Social Planning Council of Metropolitan Toronto places great importance on the recommendations of the Select Committee in their first report. In late August, 1981, the Council submitted its first brief, entitled "Justice for Pensioners", to this Committee in which it outlined its views of pension reform in Ontario. The Council welcomes the opportunity to respond to the first report by the Ontario Select Committee as well as to present its views on other matters included in the Select Committee's terms of reference.

I. Adequacy of Retirement Incomes

In their report the Select Committee quoted and accepted the Royal Commission's view that Old Age Security (OAS), the federal Guaranteed Income Supplement (GIS) and the provincial Guaranteed Annual Income System (GAINS) together enabled a minimum "adequate" standard of living for a married couple. They concluded as well that this is far from true in the case of single or unmarried elderly persons. They recommended that the income provided single or unmarried elderly persons should be increased to achieve the same standard of living. The Social Planning Council basically agrees with the principles and conclusions underlying these positions.

As the only organization in Ontario which publishes standards for goods and services for consumption by elderly persons that provide an "adequate" level of living, the Social Planning Council is in the unique position of being able to comment on income adequacy. While the OAS-GIS-GAINS annual income for a couple was \$11,139.84 as of October 1981 the income required for the consumption of what this Council considers to be an adequate bundle of goods and services stood at \$11,324. While the OAS-GIS-GAINS income for a single elderly person was \$5,918.88 in October 1981, the cost of Council's basket of goods and services for a single elderly individual stood at \$7,956, almost \$2,000 more than provided by the guaranteed income system.

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In the Council's view, the disparity between the income guarantees for elderly couples and singles has developed, at least in part, because neither the Ontario or Canadian governments have developed and employed a concept of adequacy in establishing programmes of income maintenance. The Social Planning Council recommends, as in its earlier brief, that Ontario develop and employ a standard of income adequacy as a basis for establishing their retirement income programmes.

2. Increasing GAINS and Survivors Benefits

The Social Planning Council supports the recommended immediate increase in payments under the guaranteed income system for single elderly persons in order to provide them with an adequate level of income. Those people who have not been able to build up adequate pensions for their retirement years and who may no longer be with us when improved pension systems reach maturity must not be penalized in their retirement years. We would prefer that the necessary adjustment be made in the federal GIS, as its rate of taxback for those with incomes barely over the minimum level is much less punitive than is the case for the provincial plan, but would argue that the adjustment be made in the provincial GAINS programme if the federal government proves unwilling to adjust its policies. The Council, however, asserts that the receipt by a single elderly person of 60 per cent of the income of a couple would not achieve the goal of income adequacy. If the Select Committee's goal is a similarly adequate standard of living for both single and married elderly persons, then it is appropriate to consider both the Federal Government's low income cut-offs (LICO) and the Council's adequacy standards for such one and two person households. Canada's low income cut-offs, which are published annually, show that a single person needs 69 per cent of the income of a couple, a ratio which remains constant across communities of all sizes. The Council's adequacy standards, which were arrived at by pricing a specific basket of goods and services appropriate for elderly persons, indicate that a single elderly person needs 70 per cent as much income as a couple to enjoy the same standard of living.

Since both income standards, which were independently arrived at, agree that individuals living alone need about 70 per cent of a couple's income, there appear to be strong grounds for arguing that 60 per cent is not adequate. The Council recommends that the OAS-GIS-GAINS retirement income be increased so that single persons receive 70 per cent of the income guaranteed to a married couple.

The Council also recommends that the Ontario government press the federal government for a similar increase in survivors' benefits in the Canada Pensions Plan. Loneliness in old age or the loss of a lifetime companion should not be the occasion for a suddenly lowered standard of living. Survivors' benefits should be increased from 60 per cent to 70 per cent of the original Canada Pension amount.

While there will be those who decry the cost of such programmes to aid the single elderly, the fact of the matter is that regardless of the exact income ratio which may be established through research, such reforms seek only to provide single elderly persons with the same standard of living that is already guaranteed for couples. We insist that all individuals, whether living alone or as part of a couple, are entitled to the same level of living.

3. From Adequate Incomes to Adequate Pensions

Most Canadians seem to be in agreement that Canada's and Ontario's current pension systems do not meet the needs of retirees. Both the Royal Commission on the Status of Pensions, as well as this Select Committee in its first report, are in agreement with this conclusion.

It is also noteworthy that in the 1943 Report on Social Security for Canada, Dr. Leonard Marsh asserted that, "Since industrial retirement plans will probably never be extended to even the majority of employees, and since, in any case, they cannot protect the important group of aging persons working on their own account or not engaged in industry, they cannot be regarded as an alternative to an inclusive state-operated plan." Little has changed in 40 years. Marsh's conclusions continue to be relevant.

Canadians and Ontarians are seeking a better system. Considerable disagreement exists regarding basic changes in our retirement income system. Some argue that the private pension system can be modified to meet the needs of the nation and of the province. Earlier vesting, improved portability, increased coverage and so forth will provide a retirement income system.

The Royal Commission on the Status of Pensions asserted that the private pension system would likely never have the degree of coverage that is required, something approaching 100 per cent. They therefore recommended the establishment of a Provincial Universal Retirement System (PURS).

This Council asserts that neither the private pension system and industry, nor the Provincial Universal Retirement System recommended by the Royal Commission can possibly meet this province's needs in the coming years. The proportion of workers that can expect a company pension upon retirement is still not much over 40 per cent, 30 per cent if public sector workers are excluded from consideration. In 1964 the federal Royal Commission on Medical Care Services recommended the establishment of a national mandatory social insurance system for medical care because private-sector plans were not available to large proportions of workers and because the magnitude of inadequate coverage had remained constant for a long time. For similar reasons we would argue that the private pension industry will never be able to offer Ontarians an adequate pension system. Alternative solutions must be sought.

The Social Planning Council recommends that the Royal Commission's Provincial Universal Retirement System (PURS) should not be implemented. Such a plan would only apply to Ontario. It would be many years - 30 in most cases - before it provided pensioners with adequate retirement incomes. In the case of workers with low incomes, and this includes great numbers of Ontario's women, PURS would perpetuate inadequate incomes in retirement years.

4. Changes in the Canada Pension Plan

The Social Planning Council recommends that the Ontario Select Committee should report in favour of increasing the benefits under the Canada/Quebec Pension Plan so that they equal at least 50 per cent of the average

industrial wage, not 25 per cent as currently. Combined with the OAS this would provide Ontario's workers with retirement incomes equal to over 60 per cent of the average industrial wage. It is not enough to increase the combined OAS-GIS-GAINS retirement income to adequate levels, although such improvements are of great immediate importance. The Canada Pension Plan should be seen as the primary vehicle for increased pension income.

A major stumbling block to the expansion of the CPP is the relatively regressive nature of CPP funding. The Council recommends that this problem can be resolved in two ways. First, the yearly maximum pensionable earnings (YMPE) should be increased more rapidly, and such increases should not necessarily cease when the YMPE reaches the average industrial wage, depending on the exact magnitude of the CPP increase sought.

Secondly, the Council recommends that the CPP employ a progressive schedule of income replacement whereby workers earning less than the average industrial wage would receive a higher net benefit/payment ratio than currently, while workers earning more than the average industrial wage would receive a lower net benefit/payment ratio. In these ways, a degree of progressivity would be included in the benefits to reduce some of the inequities in Canadian society which originate in the workworld and are then carried into retirement. One principle which should govern the magnitude of benefits for workers who have earned low incomes through their lives is that the benefit for workers who have earned the minimum wage, currently about 40 per cent of the average, should be sufficient to eventually phase out the federal and provincial guaranteed income plans. Canada's pension system must move beyond the principle of "residualism" to one of "adequacy".

These steps, then, represent an effort to achieve a compromise between the more progressive nature of the income tax system which largely funds the OAS-GIS-GAINS programmes and the regressive nature of current CPP funding. The Council's goal of a more progressively financed CPP and the means for achieving this objective are substantially the same as in the Council's 1979 brief to the Royal Commission on the Status of Pensions.

5. Employer-Sponsored Pensions, Deferred Wages and Portability

The Social Planning Council supports the concept of employer-sponsored pensions as deferred wages. The Social Planning Council therefore generally supports the Select Committee's recommendations 4 - 18 in its interim report to the Legislature. We support the recommendations with three qualifications. First, and as noted above, we recommend that survivor benefits be established at a minimum level of 70 per cent of the value of a pension. Secondly, we would recommend that the government's standards for disclosure (Recommendation #14) at least meet the standards set in our recommendation 7 which follows. Thirdly, we think that employees should be entitled to elect half the managers of a private pension plan, not just one as in your recommendation 15. The Council agrees that the introduction of such standardized reforms as earlier vesting and locking-in of benefits, the excess interest method of coping with inflation and other means of increasing the value of employee pensions and of increasing the employee's control over and information about his or her pension flow from the concept of pensions as deferred wages and show respect for the employee's proprietary interest in employer-sponsored pensions. The Council believes that the recommendation by the Select Committee to pursue the vesting of employment pensions after less than five years employment is extremely important and consistent with the view of pension contributions as deferred income.

The Council adds the recommendation that Ontario legislate portability between employer-sponsored pension plans. If portability can be fairly legislated, it would offer the employee a valuable choice with regard to retirement planning, and a possible alternative to the use of a non-commutable RRSP investment vehicle, which the Select Committee has already recommended.

6. Pensionable Age

The ability of an employee to choose, within reasonable limits, his or her pensionable age, is important. On the one hand, illness or

other crises may create the need for earlier retirement and earlier pension benefits. A good pension plan and long years of employment may induce some to opt voluntarily for an earlier retirement if they have some control over their pensionable age. On the other hand, many persons in the workforce may take great satisfaction in their work and/or in the higher standard of living derived from employment income and wish to continue employment beyond age 65. The Council recommends that the pensionable age for both the Canada Pension Plan and employer-sponsored pensions be flexible between the ages of 60 and 70. We would qualify our recommendation only by noting that it is contingent on the development of an adequate retirement income system. We would not want to recommend such flexibility over the age of 65 years in the absence of an adequate system.

7. The Lack of Information About Employer-Sponsored Pensions

The Social Planning Council recommends that the Ontario government provide more and better information about the number of persons covered by an employment pension plan, the percentage of workers who actually collect a pension benefit and other information about the level of benefits, years of service, vesting, interest earned, size of company, etc., which would enable both the citizens and government to understand and monitor the current and future developments in this crucial field. In asking for this information, the Council is at least partially basing its request on the need for better information which the Select Committee itself expressed in its interim report.

